Insurance (Amendment Act), 2024 – beginning of a transformative era driving 'Insurance for all'

Amendments proposed by Department of Financial Services (DFS)

India's insurance industry is at the cusp of transformation with the anticipated introduction of the Insurance Amendment Bill. This landmark reform aims to improve market penetration, foster competition, and encourage innovation. As the insurance industry prepares to welcome some of the most notable amendments, insurers may look inwards to assess their strategic and operating readiness, allowing them to take advantage of these reforms. Insurers may use this as an opportunity to meet the evolving needs of their customers and equally prepare to operate in an increasingly dynamic environment characterised by a possible influx of new insurers and ecosystem players.

After 25 years of building the industry's foundation, insurers may witness a complete overhaul, leading to a brighter and inclusion-driven India. The government plans to introduce a transformative bill that will be a significant step towards achieving 'Insurance for all by 2047'.

Key amendments to the Insurance Act:

Introduction of Composite Insurance License:

Currently, life insurance companies cannot offer health or general insurance products, and vice-versa. A composite license will allow insurers to offer the entire range of products. This proposed reform will align with best practices in mature insurance markets like the UK and enable bundling products, such as combining life and health insurance. This will offer Indian insurers an opportunity to diversify their portfolio and remain competitive in a dynamic market.

While preparing to usher in the era of composite license, which dimensions may insurers evaluate to assess their 'Readiness Quotient'?

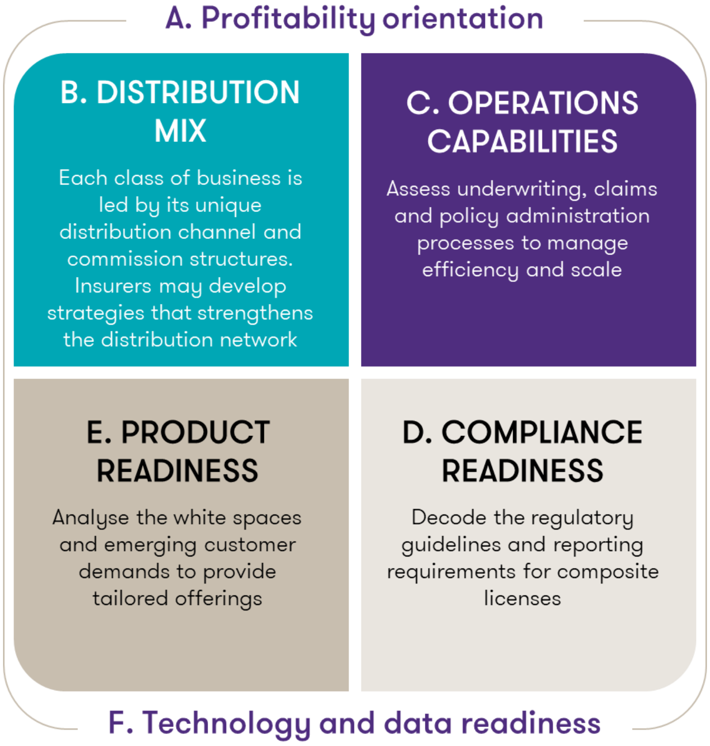
Insurers may look to develop a comprehensive strategy to leverage opportunities presented by the composite insurance license. This could involve making strategic investments, enhancing organisation capabilities, and aligning the operating model to deliver a seamless customer experience across a diversified product portfolio.

Key dimensions that insurers may assess their 'Readiness Quotient' around, while preparing a strategic way forward:

Insurers may:

- Review capital requirements and solvency ratio to support expanded offerings.
- Analyse the impact on profitability, cost structures, and investment portfolio.
- Evaluate current strengths around the distribution structure and network, and formulate plans to create relevant orientation to suit the extended product offerings.
- Identify the degree of centralisation and standardisation across the processes.
- Review the existing technology and data infrastructure to handle penetration through cross sell, as well as equally support operations, including underwriting, and claims processing.
- Identify customer segments they wish to pursue, and therefore, analyse gaps in the product offerings.

Fig 1. Dimensions for insurers to evaluate as they prepare to leverage composite license.



An average size life insurer may process 1500-3000 individual death claims in a year, a health insurer may do this daily. Therefore, insurers may prepare to meet the requirements of front-middle-back-office operations by decoding relevant nuances for each line of business.

Reduction in paid-up capital:

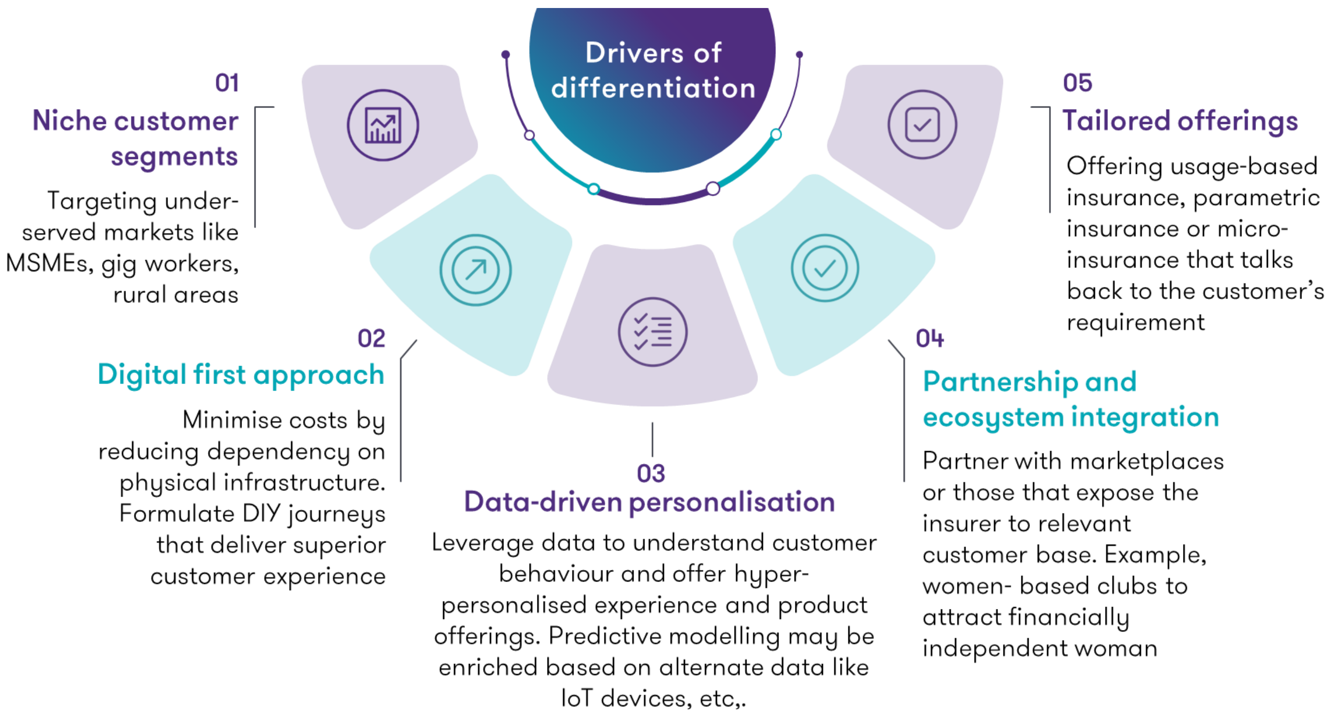
The minimum capital requirement in the past was set out regardless of the insurer's size, nature, or scope. A proposal to lower such paid-up capital requirement from INR 100 crores to INR 50 crores for various classes of insurers may attract regional or niche players to address specific customer segments. (a) Organisations that operate within the adjacencies of the insurance industry and (b) Companies that have developed capabilities in the domains of distribution or digital could be immediate beneficiaries of this amendment.

Potential beneficiaries:

- Existing players in the financial services space that have a strong customer base and distribution channel, as well as the capacity to underwrite risk, for example, small finance banks.
- Large corporates, especially in sectors, such as health care and automobile, can look to vertically integrate insurance offerings.
- Technology focused start-ups that have been solving insurers' business challenges to streamline distribution or operations could leverage strengths and forward integrate their solution.
- Regional/local players who previously could not apply due to the high capital requirement.

How can new players differentiate themselves from established insurance players?

Fig 2. New insurance players may look at differentiated business and operating models built on various drivers.



100% FDI in Indian insurance company:

This change can potentially bring in significant capital, global expertise, and innovative practices, which are vital for a capital-intensive industry like insurance. Domestic players facing challenges to scale or drive partnerships with banks or brokers due to the lack of ability to deliver a superior customer experience may borrow capabilities from foreign arms, creating a level playing field in the insurance market.

Will 100% FDI in Indian insurance impact the role of domestic partners?

An inclusive and sustainable industry could be formed on the back of leveraging global capabilities alongside domestic strengths, paving the way for 'Insurance for all.' Indian players provide unmatched local insights, robust distribution networks, and a brand that customers trust, which is critical for scaling up. Global strengths in the form of enhanced technological and data capabilities, distribution strategies that have been proven in matured markets, and risk management capabilities could be a great value addition to the insurance sector. All this can come together to deliver a balanced approach in the sector.

Issuance of captive licenses:

The bill may include provisions for issuing captive licenses, allowing organisations to set up cell captives to cover their specific needs. This could enhance self-insurance capabilities and risk management for large corporations. Captive insurers can help a country's financial sector become more resilient by promoting risk management within firms. They can also help businesses develop tailored insurance solutions for unique risks, which can lower the total cost of risk to the organization.

This could be a win-win for re-insurers and insurers

Captive insurers often require reinsurance to manage their risk portfolios effectively. This could boost demand in the reinsurance sector and attract more foreign and domestic reinsurers to the Indian market.

On the other hand, insurers may collaborate with captives by offering administrative support, underwriting expertise, or claims management services. Even though general insurers covering large commercial risks, especially in the manufacturing, energy, and infrastructure sectors, may witness a portion of premium income shift to captive insurers, traditional insurers may respond by reassessing the pricing models to stay competitive in the market.

Validity of registration for insurance intermediaries

The bill proposes a one-time registration process for insurance intermediaries, such as corporate agents and brokers, and perpetual validity of the license upon payment of the annual fee set by the IRDAI. Previously, these registrations were valid for only three years and required renewal every three years. A perpetual license may do away with uncertainties in business continuity, thereby driving higher confidence among intermediaries and insurers alike.

Insurers permitted to engage in other forms of business

Insurers may be allowed to distribute other financial products, broadening their service offerings and integrating more financial solutions under one roof. This change may allow insurance companies with alternative income streams to reduce the reliance solely on premiums and underwriting income. Building diversified financial products may present a better likelihood of superior customer engagement and experience. However, selling and managing products other than insurance products may require new skills, technology, and operational processes. This transformative amendment positions insurers as holistic financial service providers and can help tap the underserved markets.

Open architecture for insurance agents

This amendment may change how insurance products are distributed in the country. Agents will now be allowed to sell products from multiple insurers, breaking away from the earlier exclusivity model. This may give impetus to a customer-centric framework, enabling customers to access various insurance solutions through a single agent. Agents can represent and distribute policies from multiple insurers, spanning life, general, and health insurance categories.

Customers can access a broader range of products and compare offerings without consulting multiple agents. Open architecture fosters a competitive environment where insurers must innovate and improve their offerings, delivering a better customer experience.

Insurers can rely on an expanded agent network rather than investing heavily in building proprietary distribution channels.

Agents stand to gain better incentives on the back of better policy density delivered with a wide variety of products.

The amendment may increase insurance penetration in rural and underserved areas. By empowering agents to offer products from multiple insurers, open architecture will ensure accessibility, especially to underserved markets. It not only democratises access to diverse insurance products but also fosters healthy competition, innovation, and growth within the insurance industry.

Will agency business stand to become more successful in the future?

Part-time agents have always led the agency business in India, unlike in countries like China, where full-time agency is a proven model. As agents may now have the chance to sell multiple products across various lines of business (life, general, and health), this could prove to be more beneficial to them.

With higher income associated with insurance sales as a profession, agents may consider this a full-time job role, delivering higher commitment, focus, and scale to the business.

Life-time productivity of Life insurance agents in India stands below 1.3**. Given the wider range of products now accessible to them, this productivity metric may witness a rapid uptick, thereby drawing higher incentives and in-turn commitment of agents.

Insurance intermediary to include managing general agents

Key differentiator to becoming a successful MGA would mean substantial investment in technology, data analytics, and specialised talent, which could be a barrier to smaller entities.

Managing General Agents (MGA) are intermediaries with delegated authority from insurance companies, who may handle various aspects of the insurance business, including underwriting, pricing, policy issuance, and claims management. They may be authorised to distribute and manage specific insurance products, often in niche markets or underserved segments. Insurance companies can focus on underwriting strategy and capital allocation, while MGAs may manage customer-facing functions.

MGAs have become a significant part of the insurance landscape in mature markets like the UK. They act as a bridge between insurers, brokers, and consumers, leveraging their expertise in managing particular lines of business, especially in areas such as commercial, speciality, and niche insurance.

** Lifetime productivity of life insurance agents at 1.3 is an estimate based on industry discussions with mid-sized life insurance players.

Conclusion:

The face of the Indian insurance industry is likely to evolve rapidly and dramatically with the introduction of the Insurance Amendment Act. Several new notable additions are proposed to be made. Insurers and ecosystem players wanting to ride this wave may act now rather than later. Defining strategic ambitions will be the first step in this direction, followed by creating a roadmap to re-look at capital structures, business, and operating models that ultimately will help achieve the laid-out objectives.

Various stakeholders stand to benefit from these amendments and must firm up their go-to-market strategy in light of these changes:

Insurers

Insurers will need to step up activity to take leverage of the changing dynamics and stay relevant in a market that may witness increased competition. Those that prepare for tomorrow may stand to gain.

Re-insurers

With an insurance industry set to scale, re-insurers may gain. Specific amendments that cover lowering the 'net owned fund', requirement could mean giving impetus to new re-insurance entrants, thereby increasing competition in this space.

Ecosystem players

As the government and regulator push the agenda of 'Insurance for all', those operating in adjacencies may have a fair chance to not only scale the existing operations but forward integrate into becoming insurance manufacturers.

Customers

As the environment now fosters competition, Insurers will go above and beyond to deliver experiences and products that create a differentiation. This could mean that the customers of insurance products may find it easier to make informed insurance purchase decisions and go through a more personalised buying experience.

Distributors

With open architecture now being extended to agents, it may be a good opportunity for them to work with multiple insurers and thereby augment incentives. The model may shift away from part-time agency to full time agency, bringing better productivity to the industry.

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